




Social Security Town Hall

U.S. Congressman John Shadegg (AZ-03)
February 24, 2005



This is Above Partisanship

- The problem is greater than any political party
- When it comes to the retirement security of millions of Americans, there are no Republicans and Democrats – only Americans
- Washington needs to think about the next generation and not the next election



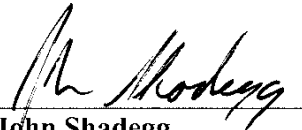
If you're an American
55 years or older,
Social Security reform
WILL NOT affect you.

Congressman John Shadegg's Pledge to Retirees and Near Retirees:

**Americans who are currently
retired or near retirement, those 55
or older, must receive every dollar of
benefits they have been promised.**

**I will not support or vote for any
Social Security reform proposal that
in any way reduces or jeopardizes
the Social Security benefits of
Americans 55 years of age or older.**

Date: February 24, 2005



**John Shadegg
Member of Congress
Arizona, 3rd District**



Generational Fairness

Our children and grandchildren
deserve a secure retirement as
much as we do



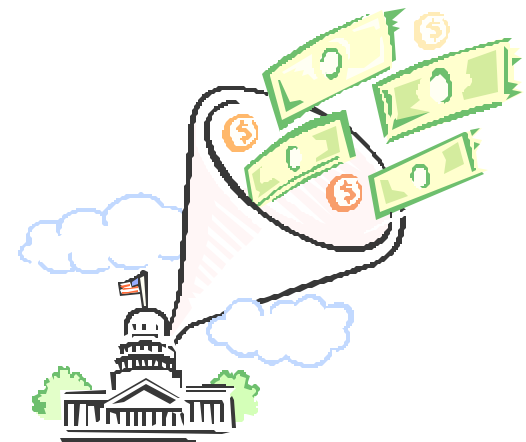
Origins

- FDR created the Social Security program in 1935.
- A contributory social insurance program:
Everyone puts in and everyone receives benefits

How is Social Security Funded?

- A 12.4% Payroll Tax
(\$1 of every \$8 earned)
 - Each worker pays 6.2% of wages* to the government
 - Employer pays matching 6.2%

(*Wages up to \$90,000 are taxed)

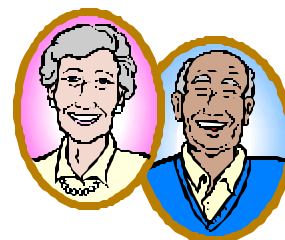
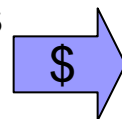


How the Trust Fund is Funded

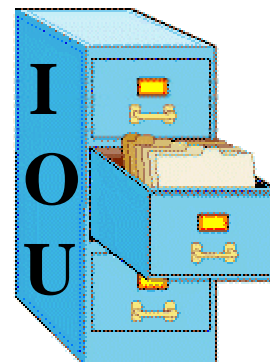
Step 1: The Federal Gov't collects the 12.4% payroll tax



Step 2: These tax dollars are used to pay benefits to current retirees



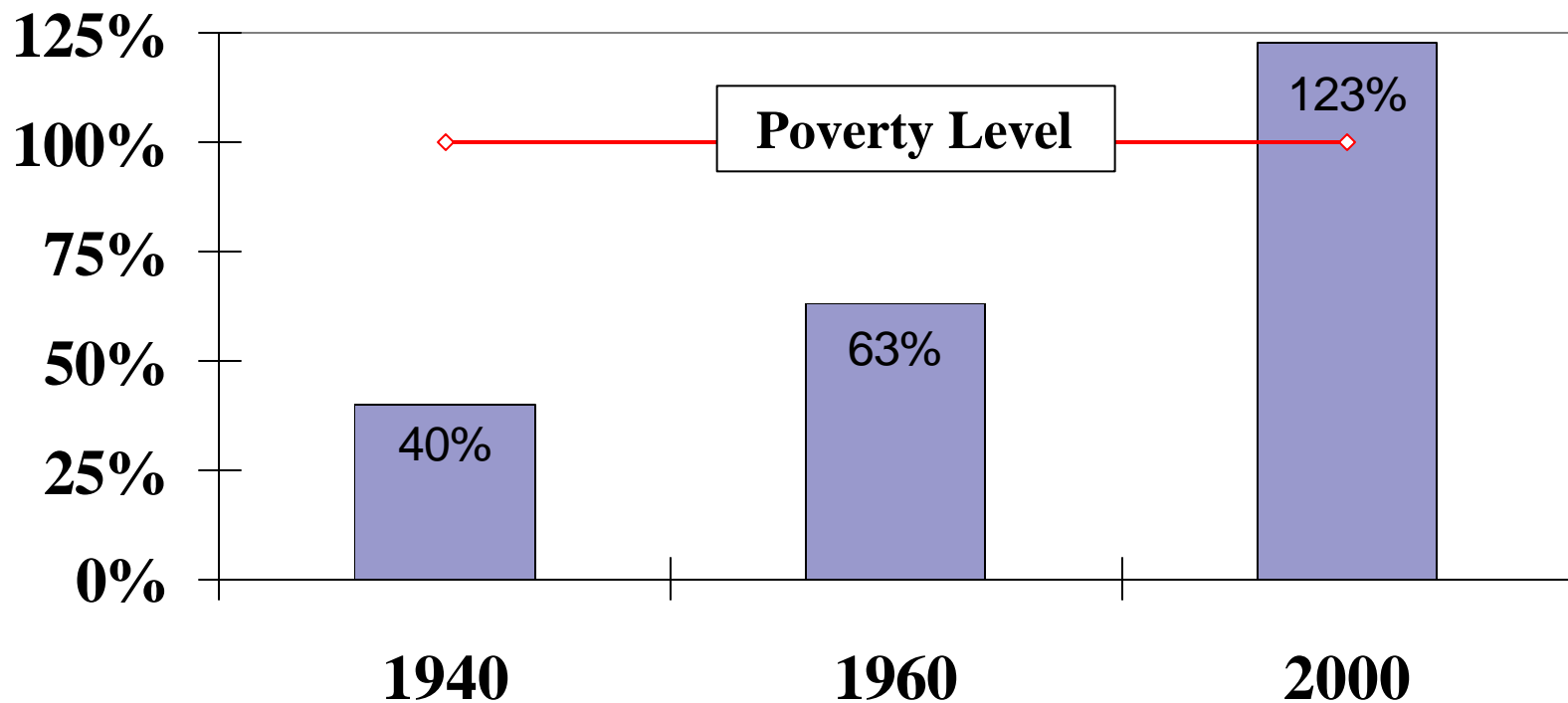
Step 3: The money left over is credited to the SS Trust Fund with an IOU



Step 4: The surplus of cash brought into the program over benefits paid out is spent by the government on other government programs

Social Security Provides a Floor of Protection

Today, the average retirement benefit exceeds 120% of poverty level.



Strengthening Social Security



James B. Lockhart

Deputy Commissioner of Social Security

Andrew G. Biggs

Associate Commissioner, Retirement Policy

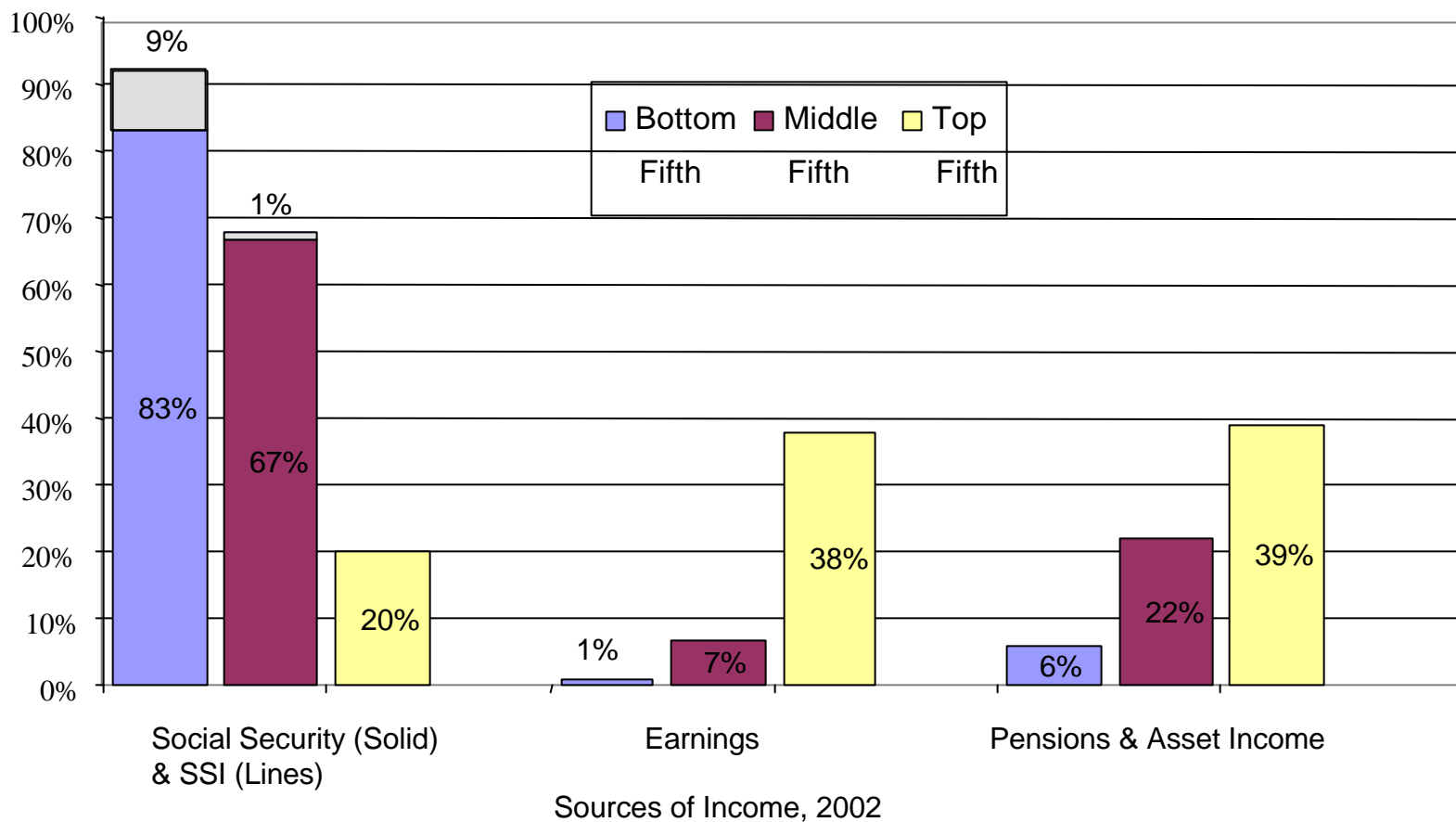


Strengthening Social Security

- Benefits for current and near-retirees are secure
- But we need to make changes for their children and grandchildren
- Choices are not easy, but the sooner action is taken the less abrupt the changes will be
- The goal: achieve sustainable solvency and meet the needs of future generations



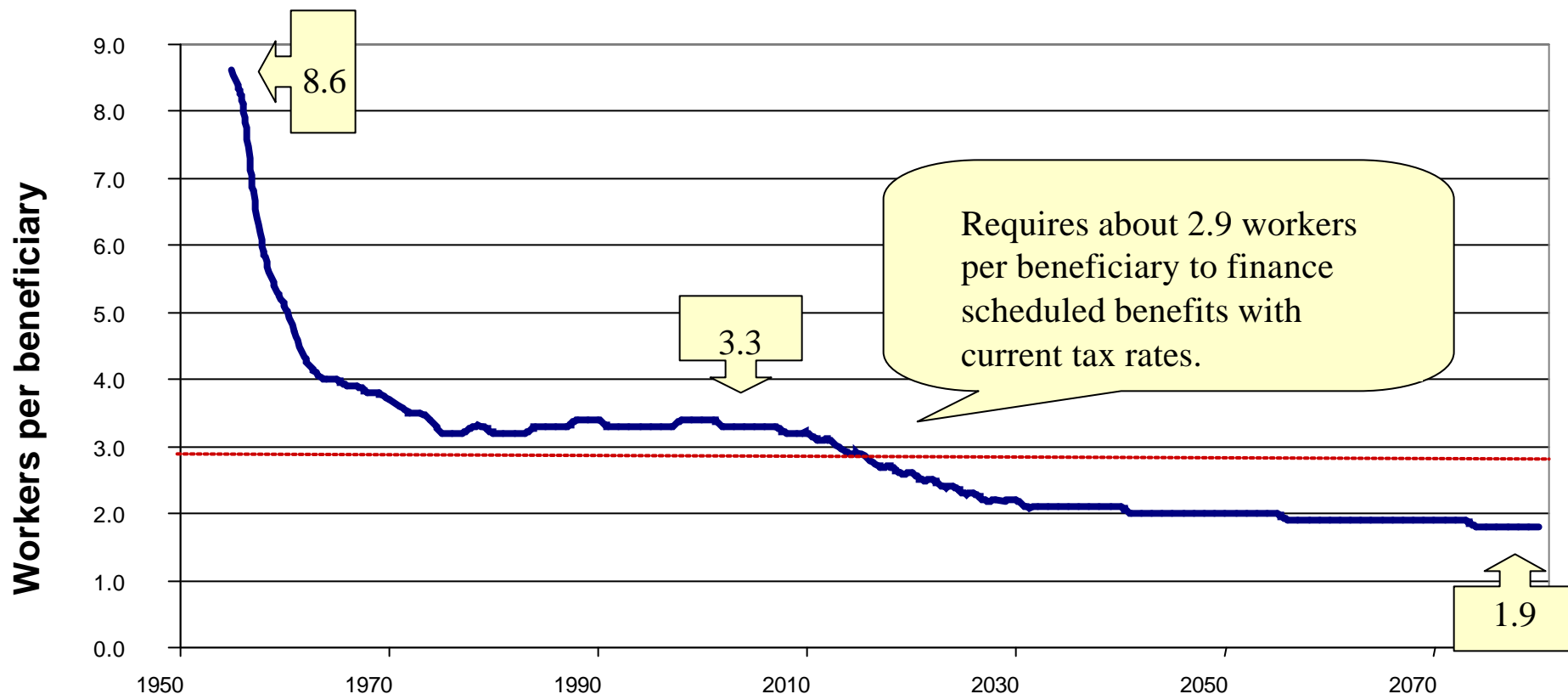
Lower And Middle Income Retirees Are Very Reliant On Social Security





Pressures Growing On Social Security's Pay-As-You-Go System

Ratio of workers to beneficiaries is falling: Baby Boomers retiring, birth rates falling and people living longer





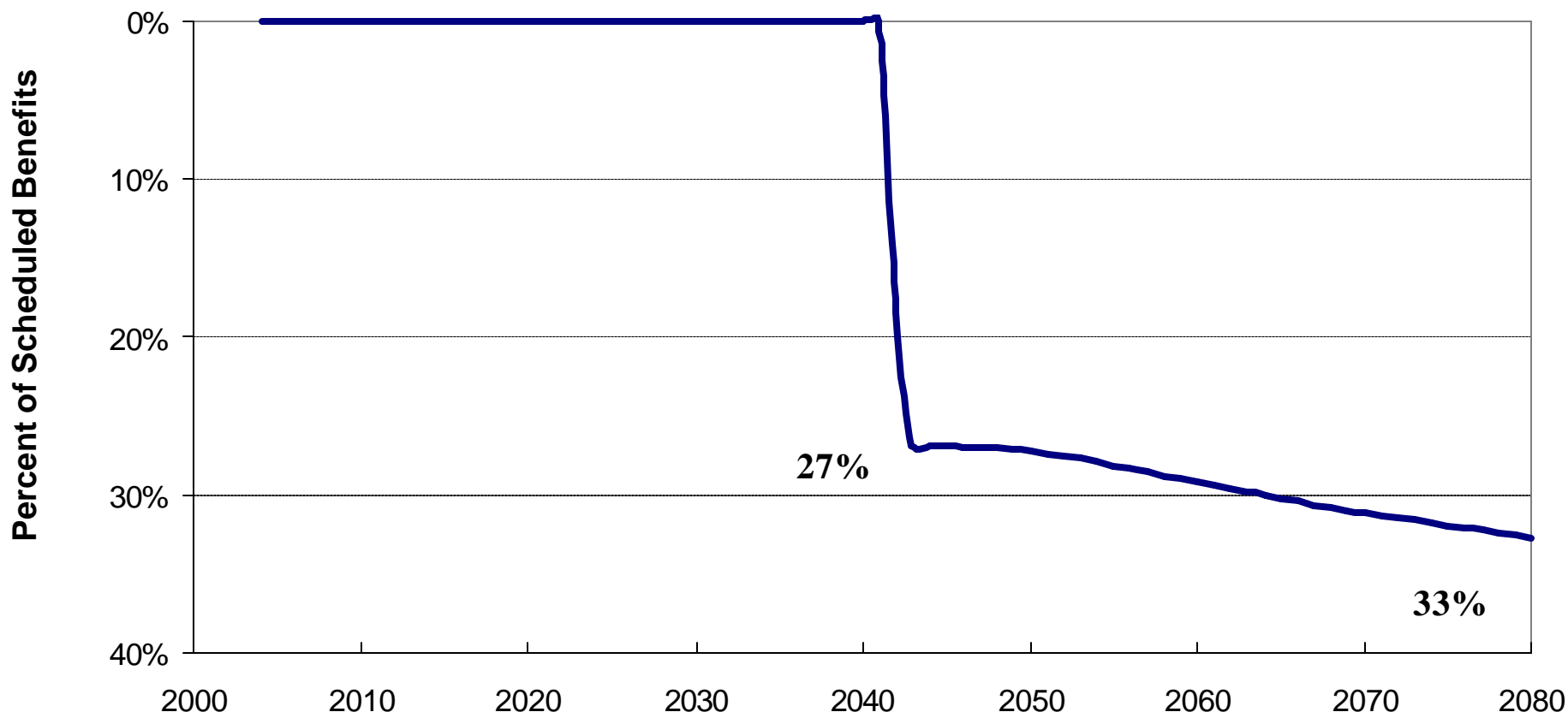
Social Security's Financing Is Unsustainable Without Change

- Social Security is currently taking in more money than it is paying out in benefits
- But pressures begin when “Baby Boomers” start retiring in 2008
- By 2018 Social Security will pay out more in benefits than it collects in payroll taxes
- By 2042, the trust fund will be exhausted. Taxes will only fund 73% of scheduled benefits
- The probability of solvency is very low without changes



At Present Tax Rates, Benefit Cuts Would Be Drastic

Reduction in Scheduled Benefits Assuming No Change in Law






Three Options To Strengthen Social Security



- **Increase Taxes**
- **Slow Growth In Benefits**
- **Increase Investment Rate of Return**

Each option has proponents and opponents...



“We know the problem. We know that if we act now it will be easier and less painful than if we wait until later. I don’t think any of you want to see America in a situation where we have to cut benefits 25%, or raise inherently regressive payroll taxes 25%, to deal with the challenge of the future and our obligations to our seniors.”

President Bill Clinton

Remarks to The Concord Coalition/

AARP SS Forum

July 27, 1998



WHY WE MUST ACT NOW



DEMOGRAPHICS DRIVE THE PROBLEM



FACT:

One problem with doing nothing is that
the number of workers per retiree
has declined dramatically and
continues to decline

THE DEMOGRAPHICS OF SOCIAL SECURITY

1945

42 Workers paying for every 1 Beneficiary



1950

16 Workers paying for every 1 Beneficiary



TODAY

3.3 Workers paying for every 1 Beneficiary



WHEN YOUNGER WORKERS RETIRE

Only 2 Workers paying for every 1 Beneficiary

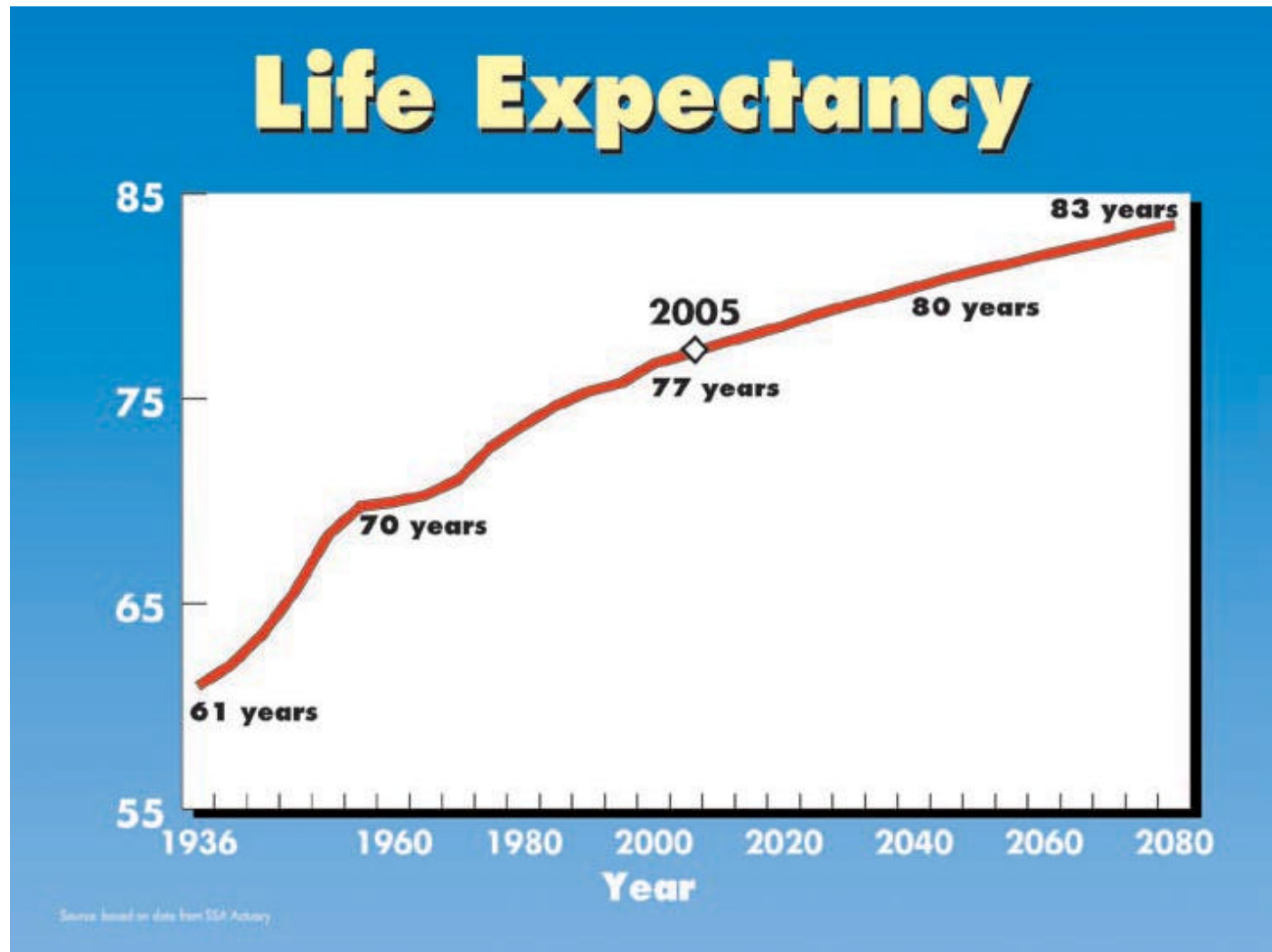




FACT:

Another problem with doing nothing is
that fortunately Americans
are living longer

Life Expectancies Heighten the Shortfall





FACT:

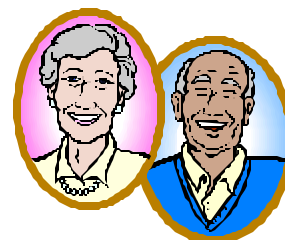
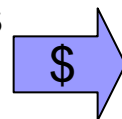
Yet another problem with doing nothing
is that the SS Trust Fund has no real
assets (cash, gold or real estate)

How the Trust Fund is Funded

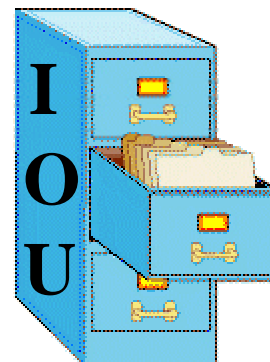
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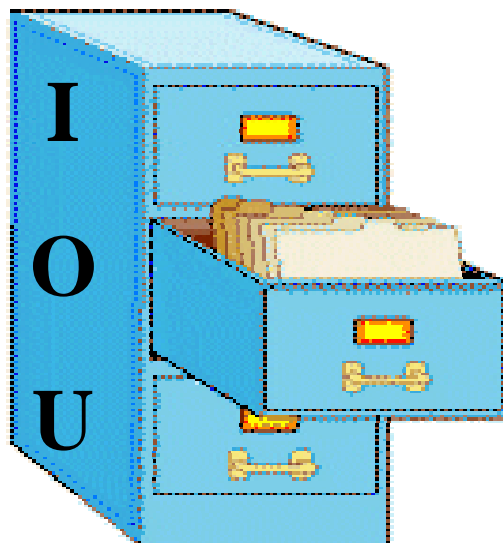
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Step 3: The money left over is credited to the SS Trust Fund with an IOU



Step 4: The surplus of cash brought into the program over benefits paid out is spent by the government on other government programs





The Trust Fund is not meaningless, but it is an empty promise

- There are no real assets – such as cash, gold or real estate – in the fund.
- It is a promise by the government (us) to pay in the future.

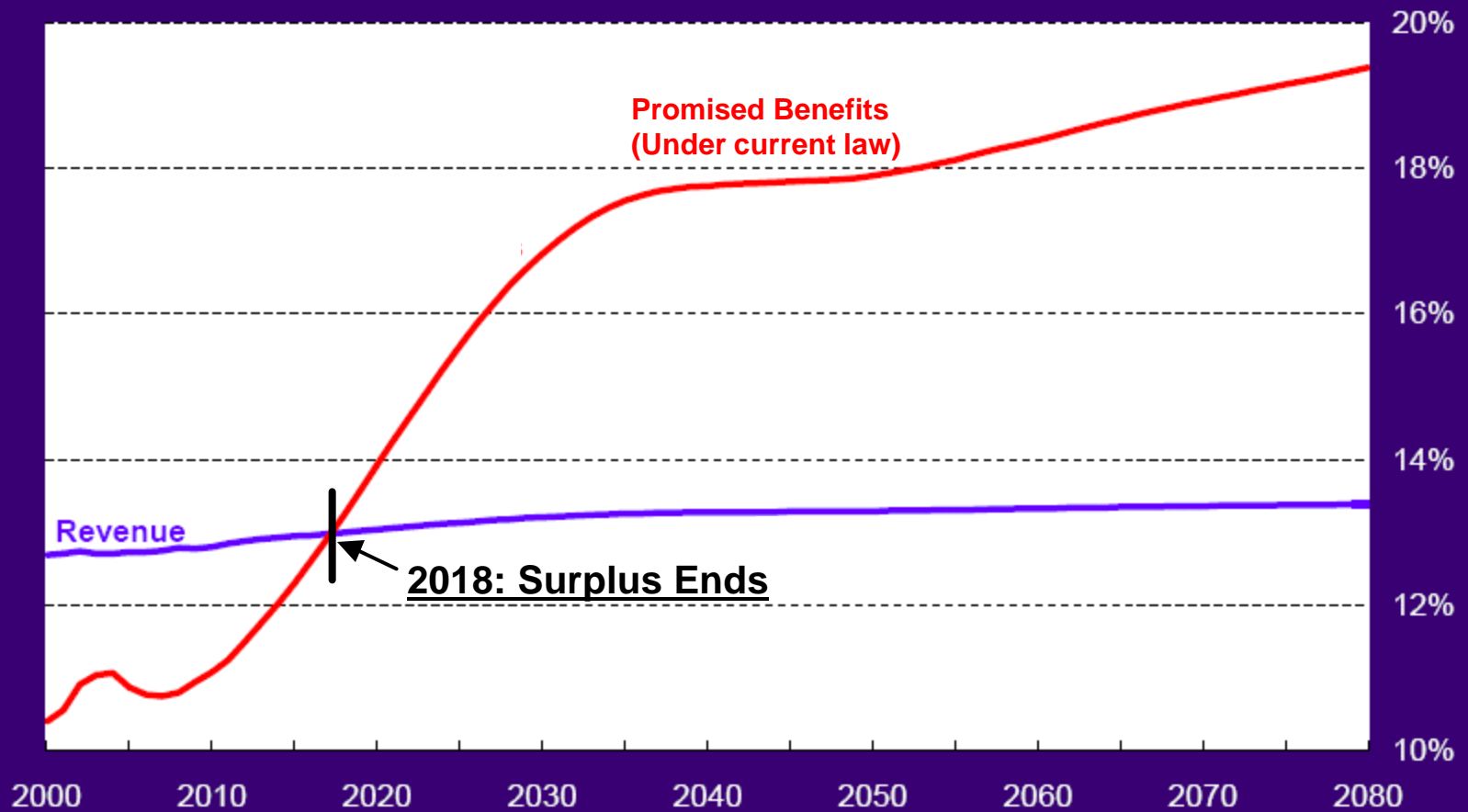


FACT:

Yet another problem with doing nothing
is that the surplus of Social Security
taxes collected over benefits paid out
ends in 2018

Social Security's Costs Exceed Revenue

(OASDI costs and revenue as a percentage of taxable payroll)



Source: Social Security Administration

Prepared by Joint Economic Committee (JEC), 2/2/2005



FACT:

- Yet another problem with doing nothing is that the Trust Fund is bankrupt in 2042.
- Under current law, benefits will be automatically cut by at least 27%

Social Security Benefits are Automatically Cut by Law

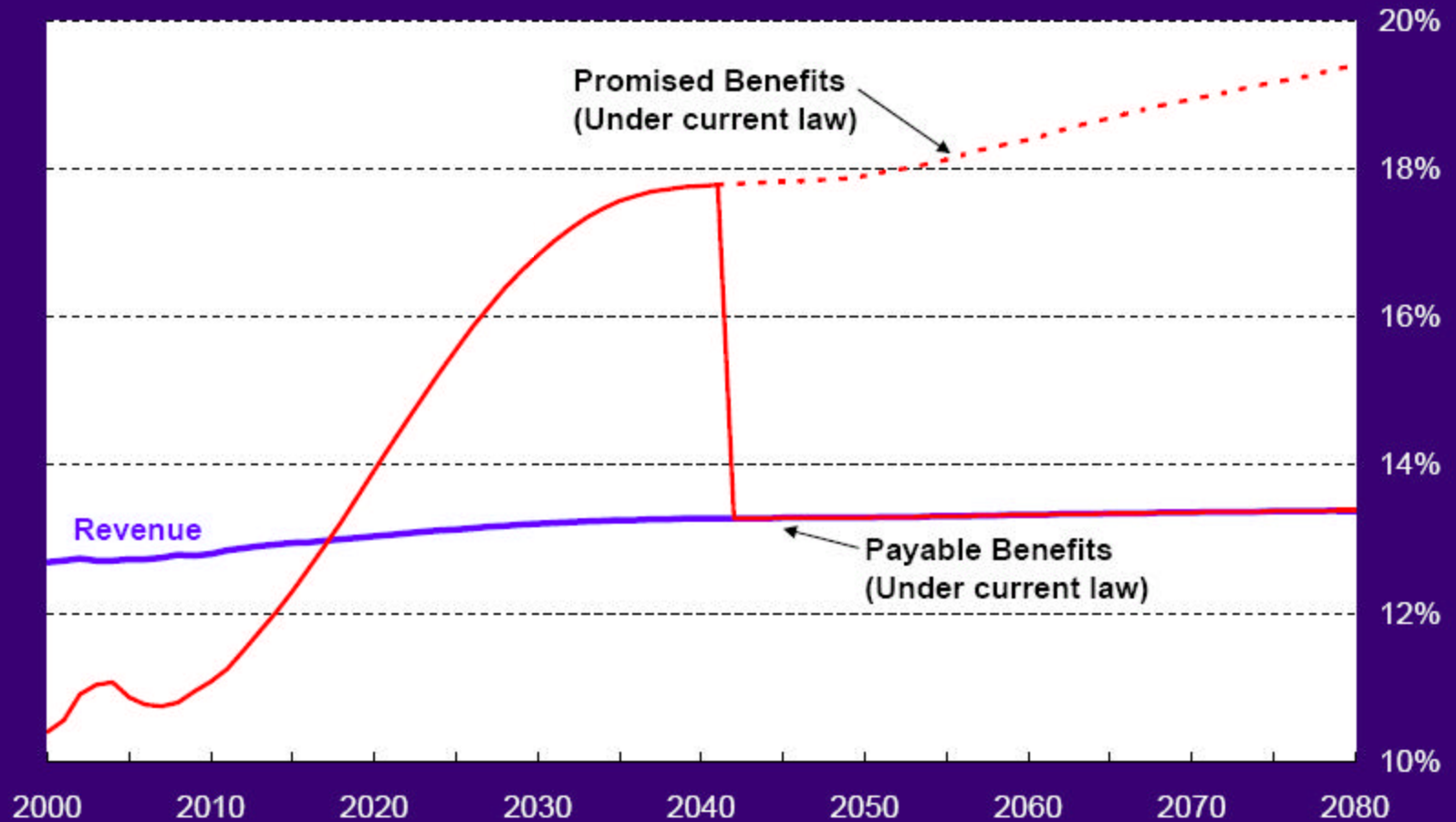
What Doing Nothing Will Mean for Social Security

	Year of Birth	Age in 2042	Benefit Reduction Post 2043
Our Children	1960	83	-27%
	1970	73	-27%
	1980	63	-27%
Our Grandchildren	1990	53	-28%
	2000	43	-31%

Source: Social Security Administration

Social Security Can't Pay Promised Benefits

(OASDI costs and revenue as a percentage of taxable payroll)



Source: Social Security Administration

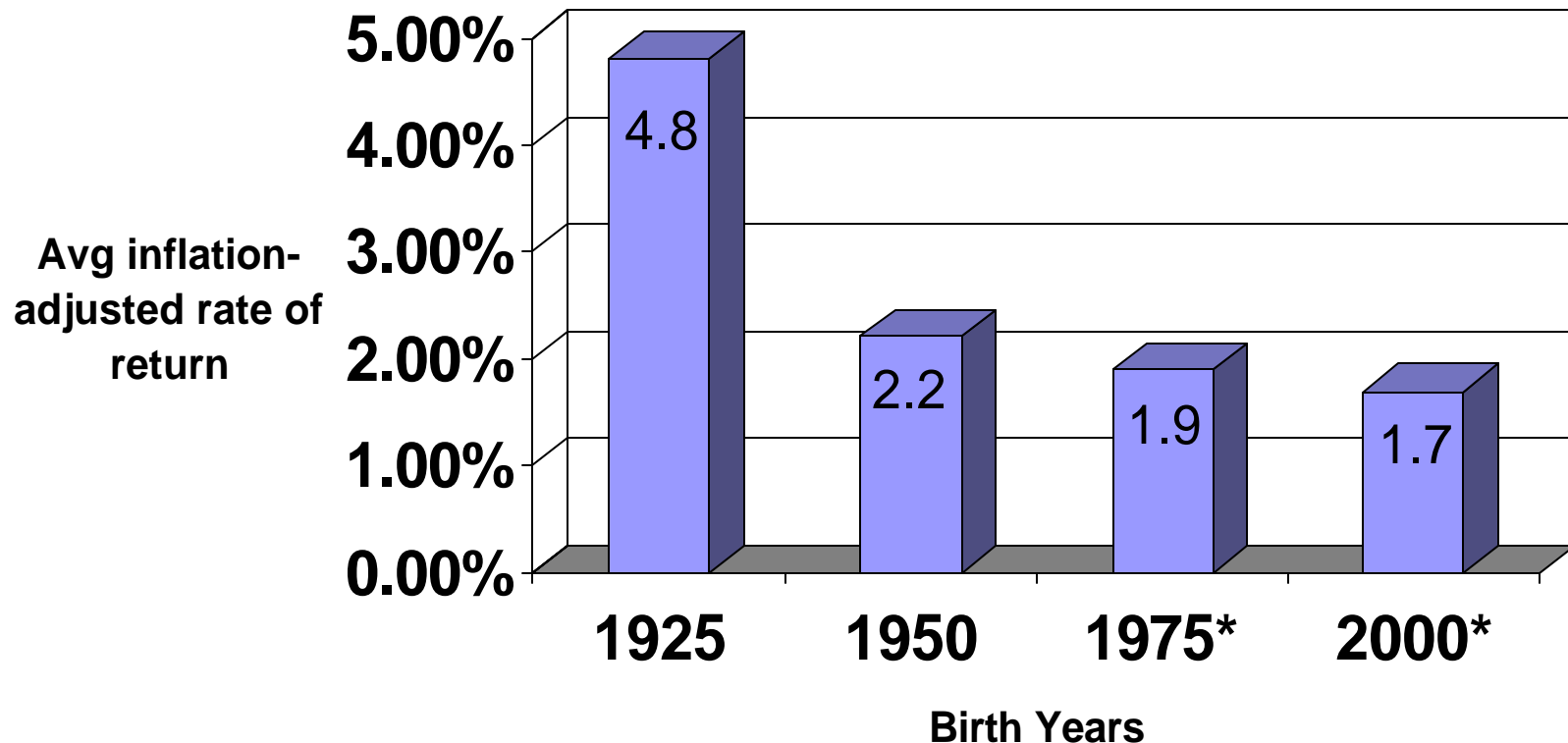
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FACT:

Yet another problem with doing nothing
is that the rate of return in the current
system is unacceptably low and
declining

Social Security Rates of Return Falling with Each Generation



*Assumes current law benefits.

Source: The White House



Current Return is Unacceptably Low

1.8%

Average Rate of Return Today



What Can We Do
to Address these Problems?




Three Options To Strengthen Social Security



- **Increase Taxes**
- **Slow Growth In Benefits**
- **Increase Investment Rate of Return**

Each option has proponents and opponents...



“...We all know that there are basically only three options: We can **raise taxes** again, which no one wants to do because the payroll tax is regressive.... We can **cut benefits**... Or we can work together to try to find some way to **increase the rate of return.**”

President Bill Clinton

Remarks at SS Event

December 28, 1998



Increase Taxes?

SS Taxes Have Been Raised Repeatedly:

<u>Year</u>	<u>Tax Rate (%)</u>	<u>Year</u>	<u>Tax Rate (%)</u>
1937	2.00	1969	8.40
1950	3.00	1971	9.20
1954	4.00	1973	9.70
1957	4.50	1974	9.90
1959	5.00	1978	10.10
1960	6.00	1979	10.16
1962	6.25	1981	10.70
1963	7.25	1982	10.80
1966	7.70	1984	11.40
1967	7.80	1988	12.12
1968	7.60	1990	12.40

A temporary fix would likely require future generations to raise taxes again.

Note: These are only payroll tax rate increases. There have also been many increases in the payroll tax base.



Cut Benefits?




SS Benefits Have Been Adjusted Repeatedly:

- 1972 – Benefit increase capped at inflation
- 1977 – Inflation adjustment reduced, but shifts from CPI indexing to wage increases
- 1983 – Retirement age increased over time from 65 to 67 and benefits were subjected to income tax
- 1993 – Benefits subject to income tax are increased



Increase Rate of Return?


One Option is “Moynihan” Personal Accounts



“...personal accounts can be and should
be a viable component of strengthening
Social Security.”

Sen. Daniel Patrick Moynihan

Final Report by the President's
Commission to Strengthen Social
Security – 2001



“What I believe we should do is to invest a modest amount of this in the private sector, the way every other retirement plan does. The Arizona State Retirement plan does; Every municipal retirement plan does; Every private plan does.”

President Bill Clinton

Remarks to the citizens of Tucson
February 25, 1999



Overview of “Moynihan” Personal Accounts

- Younger workers will have the option of directing a small portion of their current payroll taxes into accounts with their names on them
- This is an entirely voluntary program. They may put taxes in or they may keep all of them in the current system
- Those who choose to put a portion of their tax dollars in a “Moynihan” Personal Account will be able to choose from a limited number of options to invest their money

SOCIAL SECURITY



Five Principles for Reform

SOCIAL SECURITY

1. Fiscal Responsibility

**The only thing more expensive
than doing something...**

...is doing nothing.



SOCIAL SECURITY

2. No Benefit Cuts

Social Security is a cherished covenant between the government and beneficiaries that should be honored.

SOCIAL SECURITY

3. No Tax Increase

- **No Payroll Tax Increase.**
- **No Value Added Tax.**
- **No Increase on Taxable Social Security Benefits.**


SOCIAL SECURITY

4. Voluntary ‘Moynihan’ Personal Accounts for Younger Americans so They Can Have a Nest Egg for Their Retirement Years.

SOCIAL SECURITY

5. Restore Fairness to the Current System

- Workers who die prior to receiving benefits receive a negative return on their investment.
- Minority workers have the worst rate of return on their investment.
- In its present form, the system will not be sustainable for our children and grandchildren.



“The ultimate test of a moral society is the kind of world it leaves to its children.”

Dietrich Bonhoeffer